

Investor presentation January 2023

<https://www.karbonhomes.co.uk/corporate/>

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A row of modern brick houses with dark roofs and dormer windows. The houses are built with light-colored bricks and have white-framed windows. The sky is clear and blue.

1. Introduction and highlights

Presenting team



Paul Fiddaman
Group Chief Executive

Paul trained as an accountant with Price Waterhouse and qualified in 1990.

Prior to the creation of Karbon Homes, Paul served as Chief Executive of the Isos Group.

He also holds leading roles within the housing sector including Chair of the Northern Housing Consortium, a member of the North of Tyne Housing and Land Board and a board member of Placeshapers, the national network of community-based social housing providers.



Scott Martin
Executive Director of Resources

Scott (FCA) started his career with KPMG before moving into senior finance and management roles in the housebuilding sector.

He spent 10 years at Barratt Homes North East as Finance Director and then Managing Director before taking the position as Group Finance Director at the £230million turnover Storey Homes.

Scott joined Karbon in February 2020, and is responsible for Finance, ICT and People and Organisational Development.

Scott is a member of the National Housing Federation's Housing Statement of Recommended Practices working party, and an audit committee member of Prosper Procurement Limited, a strategic business consultancy.



Andrew Thompson
Assistant Director of Treasury

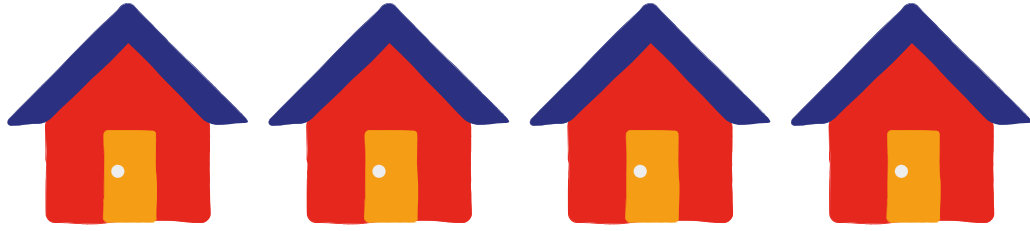
Andrew is a Chartered Certified Accountant (FCCA).

Formerly the Head of Finance at Derwentside Homes in 2015, Andrew was heavily involved in the process of amalgamation to form Karbon Homes in April 2017.

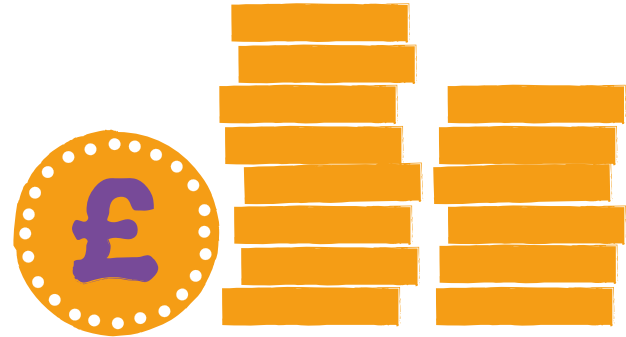
As Karbon's Assistant Director of Treasury, Andrew led on its inaugural £250m public bond in 2018, and more recently, the project to produce Karbon's ESG report against The Good Economy's sustainability reporting standard.

Andrew also holds a Board position at Durham Aged Mineworkers Homes Association, the largest almshouse charity in the UK, and is the Chair of a school charitable trust.

Our impact



Own or manage
30,000
homes, housing over
60,000
people



£155 million
annual turnover and
assets worth
**£995
million**

463
new homes
completed, an
investment of
£67.7m million



We employ
900+
people who are
all on the living
wage or above



Identified
£4.5 million
in income gains for our
customers



94,430
home repairs completed
**£56.2
million**
invested in home
improvements

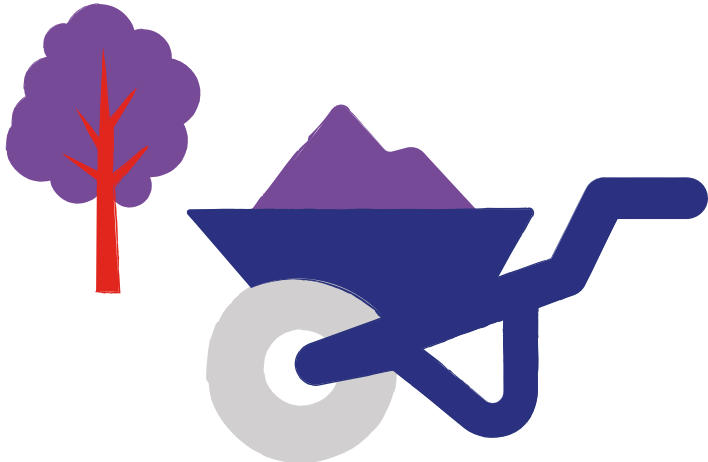
Provided
benefit, money
and debt advice to
**4,724
customers**



Supported over
171 residents
into employment and training
in the last year

Aiming to deliver
4,000

new affordable homes
by March 2028, with 2,200
via our Strategic Partnership
with Homes England



Invested almost
£268,400
in **70 community
projects** last year

Environmental, Social and Governance (ESG)

Here are some highlights from our second year of reporting against the Sustainability Reporting Standard for Social Housing. The full report for 2021/22 is available [here](#)

Social



Levelling up the workforce: our New Start programme was launched, seeing 73 Karbon residents undertake paid work placements. 31 of these have led to permanent roles with employers



Our rents are **24.6%** lower than the market rate, with an average weekly rent of £78

Our overall customer satisfaction sits at **87.2%**



Our Money Matters Team helped 4,724 customers with money advice and support, generating income gains totalling £4.5m

Our 'better health at work' scheme achieved Gold status



Our variety of resident involvement and scrutiny groups undertook almost 400 hours of voluntary work during the year, ensuring our customer voice is heard at all levels



Achieved a Net Promoter Score (NPS) from our customers of +49.9

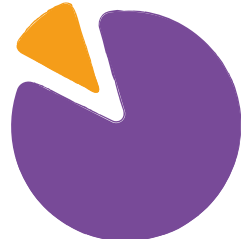


Tackling fuel poverty: Awarded grants to 184 customers with fuel poverty issues. Supported customers via our Money Matters Team to access other energy support and discount schemes



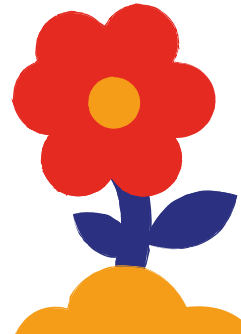
Governance

All colleagues are paid at the Real Living Wage or above



Apply a minimum of **5%** social value weighting in our procurement processes

Won 'Large company of the year' at the County Durham Together Awards 2021.



Environmental

Household pollutants: we conduct stock condition surveys on a five year rolling basis to ensure 100% compliance with Decent Homes Standards. We also use the Housing Health and Safety Rating System (HHSRS) to assess and protect against issues of damp and mould.



All new Homes are built at EPC Rating B, or above



Retained the highest possible rating from the Regulator of Social Housing (RSH) at G1/V1

Follow the National Housing Federation's Code of Governance 2020

Invested heavily in a variety of colleague wellbeing initiatives, including the free use of the app Headspace and a subsidised cash health plan

Ongoing investment in Modern Methods of Construction (MMC) products including the piloting of energy efficiency measures in some of our sites



We've invested **£1.8m** on over 1,300 specific 'fabric first' refurbishments in 21/22, generating an estimated saving of 1,500 tonnes of CO₂



Engaged 95% of our customers on energy efficiency (SHIFT)

Part of the **Karbon** family

1,800 Byker Community Trust (BCT) homes transferred in April 2021, since then we've:

- Progressed with improvements within our 'Community Pledge' including:
 - Replaced 536 bathrooms and showers
 - Refurbished almost 150 Kitchens
 - Continued significant investment in communal stairwells, external landscaping and refurbishment of the district heating system.
- Retained our customer service excellence accreditation.
- Maintained high colleague engagement with an Employee Net Promoter Score of +58 in Sept 2022.
- Continued delivery of our Thriving Byker Strategy with Phase 2 focused on the themes of pride in your area, health and wellbeing, income maximisation, training and employment and cleaner, greener and safer neighbourhoods.
- Progressed with our first new-build site of 24 homes, we expect to be on site in April 2023.
- Worked as a team in times of crisis: In December 2021 there were significant issues with the district heating system, Karbon, BCT and Newcastle Council worked together to ensure customers were safe and warm.

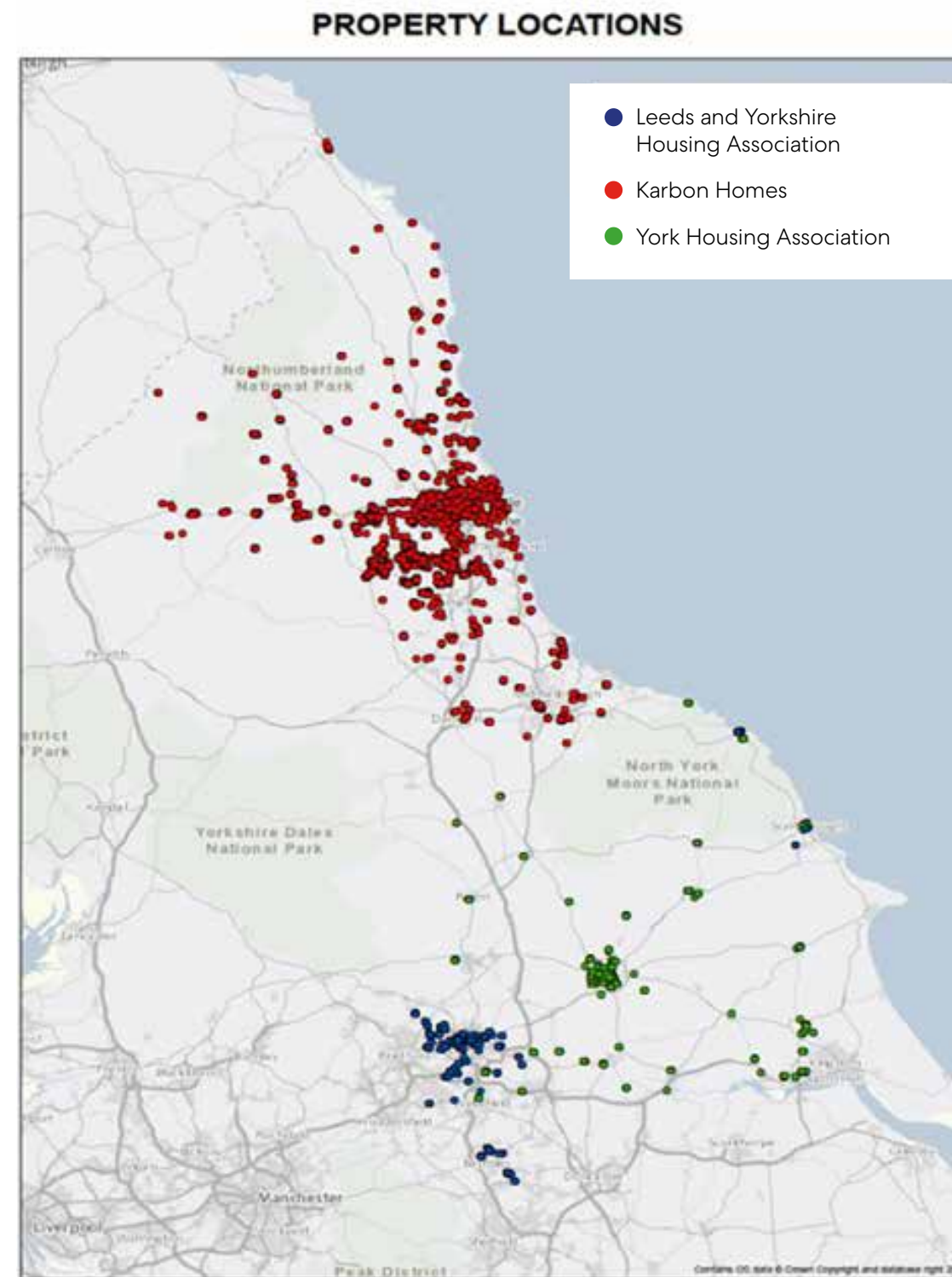


54North homes

- In December – formal Transfer of Engagement occurred between York Housing Association and Leeds and Yorkshire Housing Association
- They have combined to create a 3,000 home regional subsidiary of the Karbon Group – 54North Homes.

Advantages:

- Strong base close to its customers
- Economies of scale
- Improved placeshaping and social value potential with key stakeholders
- £1.9m of efficiencies over first five years
- Resilience improvements (recruitment, retention, asset investment and repairs programmes etc).



A photograph of two women walking on a paved path on a university campus. The woman on the left is wearing a light pink blazer over a patterned dress and has a red lanyard with an ID badge. The woman on the right is wearing a dark maroon coat and carrying a black bag. In the background, there is a large, multi-story brick building with many windows. The scene is brightly lit, suggesting a sunny day. The text '2. Operational performance' is overlaid in the center of the image in a large, white, sans-serif font.

2. Operational performance

Operating model

Our strategy is to strive for excellence across our services. They will be locally responsive, easy to access and personalised where possible.

As we move into the third year of our 'Stronger Foundations Strategy 2021-26', housing continues to have a huge role to play in our communities. Our strategic aims continue to be focused on 'Homes', 'Customer' and 'Place' and are supported by our 'Enablers'.

We benchmark our performance using Housemark and the Sector Scorecard. We have included the headline indicators we report internally below.

The KPI's listed below display our Karbon Homes (association) 2022/23 target and YTD performance to November 2022.



Operational performance

- Despite very challenging circumstances, rent collection and arrears performance has remained strong.
- Our Empty Homes Project has been very successful too, bringing void rental losses below the prior year figure and re-let times within target. This has also been helped by our performance on standard repairs days.
- However, there have been pressures on our internal resources and materials suppliers which has led to back-logs of compliance works or some major repairs. We continue to focus on 100% compliance targets, with any shortfalls on these typically due to access issues with a small number of homes.

| Karbon Homes (Association): Performance Benchmarking % | Measure | YTD Nov 2022 | Target 22/23 | FY 21/22 |
|---|----------------|-------------------------|-------------------------|-----------------|
| Rent collected against rent debit | % | 99.2 | 100.0 | 99.5 |
| Current rent arrears (Universal Credit customers) net housing benefit as percentage of rent debit | % | 3.0 | 9.0 | 7.8 |
| Void rent loss as percentage of annual rent debit rolling 12 months) | % | 1.7 | 1.6 | 1.8 |
| Average re-let time (Housemark Standard) | Days | 42.8 | 48.0 | 49.8 |
| Benefit income achieved for customers | £ | 2.5m | 4.0m | 4.5m |
| Responsive repairs completed to target date | % | 95.2 | 96.0 | 95.9 |
| Appointments made and kept | % | 97.8 | 98.0 | 98.1 |
| Average number of calendar days to complete standard void repairs (routine) | Days | 8.9 | 12 | 9.7 |
| Average number of calendar days to complete standard void repairs (major) | Days | 36.7 | 30 | 29.8 |
| Average cost of responsive repairs | £ | 152.9 | 149.8 | 149.5 |
| Homes meeting Decent Homes Standard | % | 100 | 100 | 100 |
| Gas servicing completed against service plan | % | 99.9 | 100.0 | 99.7 |
| Customers very and fairly satisfied with responsive repairs | % | 92.6 | 91.0 | 91.2 |

Health and safety

Compliance related spend for next three years being maintained at c. £11m p/a.

Damp and mould - robust systems already in place to proactively deal with any issues. Sharing learning and best practice with others in the sector.

For the next five years, increased fire safety spend to c.£5m p/a.

The Building and Customer Safety Project Team advise our board and committees on the strategic direction of fire/building safety.

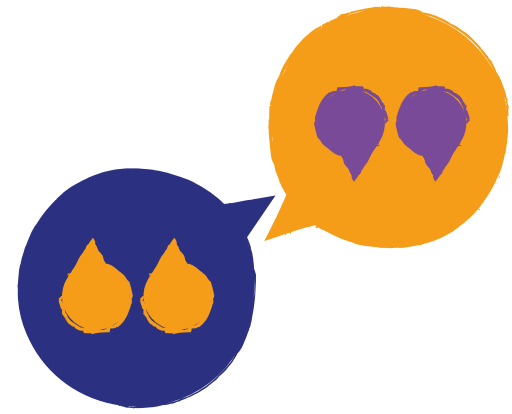


100% of homes at Decent Homes Standard.

Fire safety – robust response to Building and Fire Safety Bills based on holistic risk of a building, not just height.

Target 100% compliance on all statutory measures (gas, electric, legionella, asbestos etc).

Delivering excellent service to our customers



Making sure the customer voice is heard



Increase transparency and visibility through our resident engagement framework



Using data-led customer insight to personalise our service



Regularly measure our performance



Case study:
**New Start:
Levelling up
the workforce**

As a social housing provider, economic policy, the cost of living, and employment levels have a massive impact on our organisation and our customers. Exploring what role housing can play to make the system work is a core aim of ours.

We decided to prioritise people whose employment has been affected by the pandemic. New Start allowed us to create new posts for local people.

“We have never come across a more thorough and integrated socio-economic development approach for disadvantaged areas.”

Independent assessor

karbon
homes

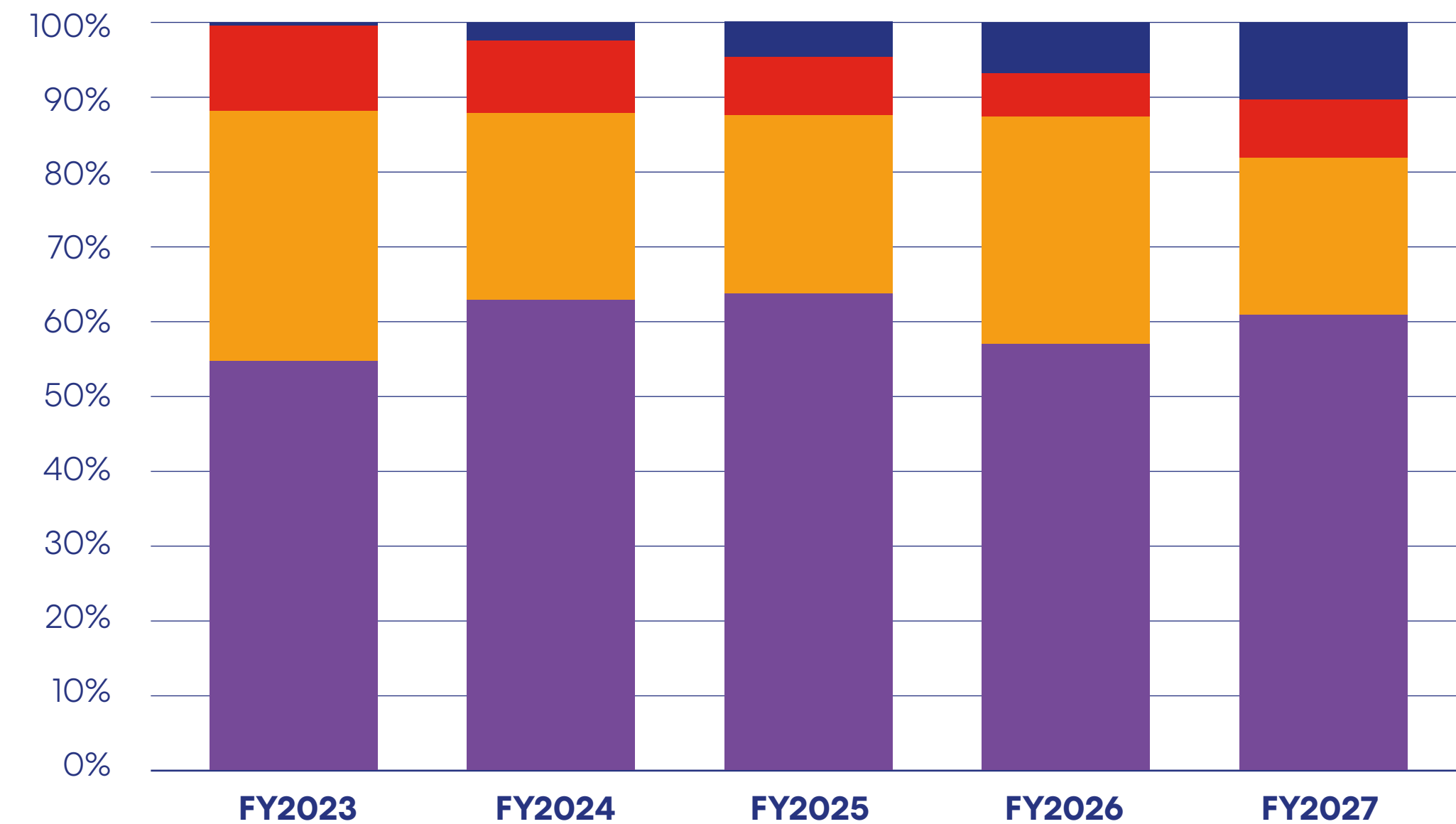
3. Development and assets

Development strategy

| Karbon Homes Group | Actual 2018/19 | Actual 2019/20 | Actual 2020/21 | Actual 2021/22 | Forecast 2022/23 | Business Plan 2023/24 | Business Plan 2024/25 | Business Plan 2025/26 | Business Plan 2026/27 |
|---------------------|----------------|----------------|----------------|----------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| New homes completed | 430 | 534 | 447 | 463 | 650 | 870 | 671 | 657 | 623 |

- Since our Strategic Partner (SP) Status with Homes England began in September 2021, we've already successfully claimed £22m of grant for sites underway
- Our SP bid was for 2,200 homes over the period to 2027/28, attracting grants of £131.5m
- This strengthens our aim for building 600 new homes per year
- Our focus remains on core social and affordable housing with modest amounts of commercial activity to help cross-subsidise social projects
- Our first Joint Venture: A 50 unit scheme in North Shields is now complete and a huge success.

Annual development programme mix



● Sub market rent
 ● Rent to Buy
 ● Shared Ownership
 ● Market rent
 ● Outright Sale

Modern methods of construction - in practice...



Insulated concrete formwork (ICF)
Station Manor, Hartlepool



Off-site volumetric construction (HUSK)
Parkside, Stanley



Off-site volumetric construction (Ilke)
Central Park, Darlington

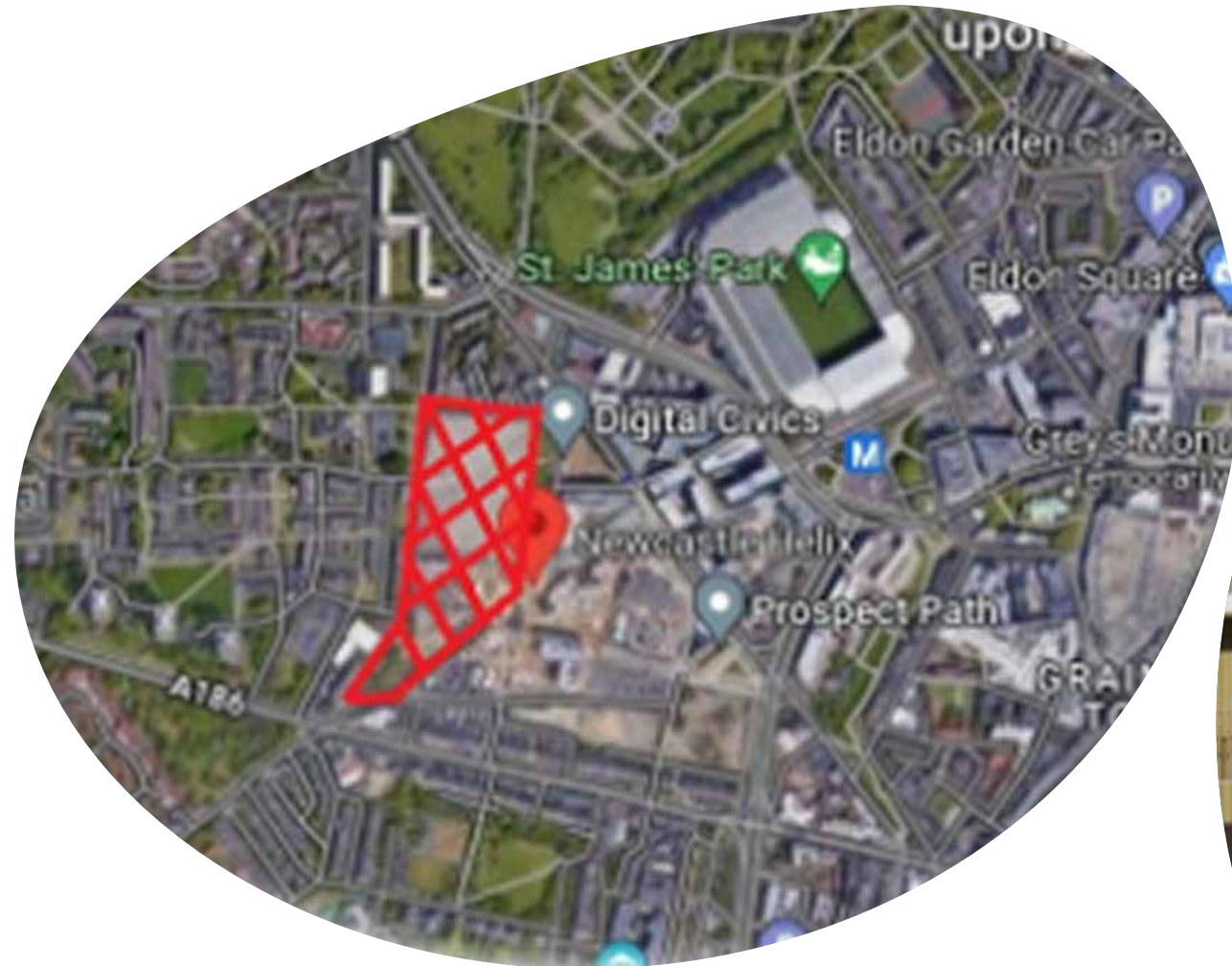


Light Gauge Steel
College Grange, Sunderland



Timber frame construction
Field Lane, Selby

Future Homes at The Helix, Newcastle upon Tyne



Strategic mixed-use site (former S&N Brewery): delivering public/private sector development including offices, university buildings - promoting research and innovation

Partners include: L&G, Future Homes Alliance, Newcastle City Council and University, Homes England

Units: 66 units in three blocks, over six-seven storeys

Tenures: Social rent and rent to buy

House types: 1 and 2-bed apartments, 2-bed and 4-bed townhouses

Design: Concrete and steel frame, demonstrator units trialling new components, flexible living space, dual aspect floor to ceiling windows, glazed balconies, links to district heating system, green roofs, high quality public realm.

Cost: £19.7m with £6.2m grant

Contractor: Tolent Construction

Programme:

Start on site Q1-Q2 2023

Completion on a phased basis from 2024

Seaham Garden Village, County Durham

One of first new **Garden Villages** in UK - residential, commercial and school

1,500 new mixed tenure homes

50% market sale – Taylor Wimpey and Miller Homes

50% affordable rent/sale – Karbon

Units: 750 affordable homes - 600 grant-funded, 150 non-grant funded

Tenures:

Rent to Buy

Affordable Rent (general/specialist)

Accommodation:

Family houses - 2, 3 and 4-bed

Extra Care apartments

Specialist/supported apartments

Design: SGV code, 100% Nationally Described Space Standard (NDSS),
Modern Methods of Construction (MMC) and enhanced energy standards/
mine water heating

Cost: £131.7m with £38.4m grant

Contractor: Tolent Living

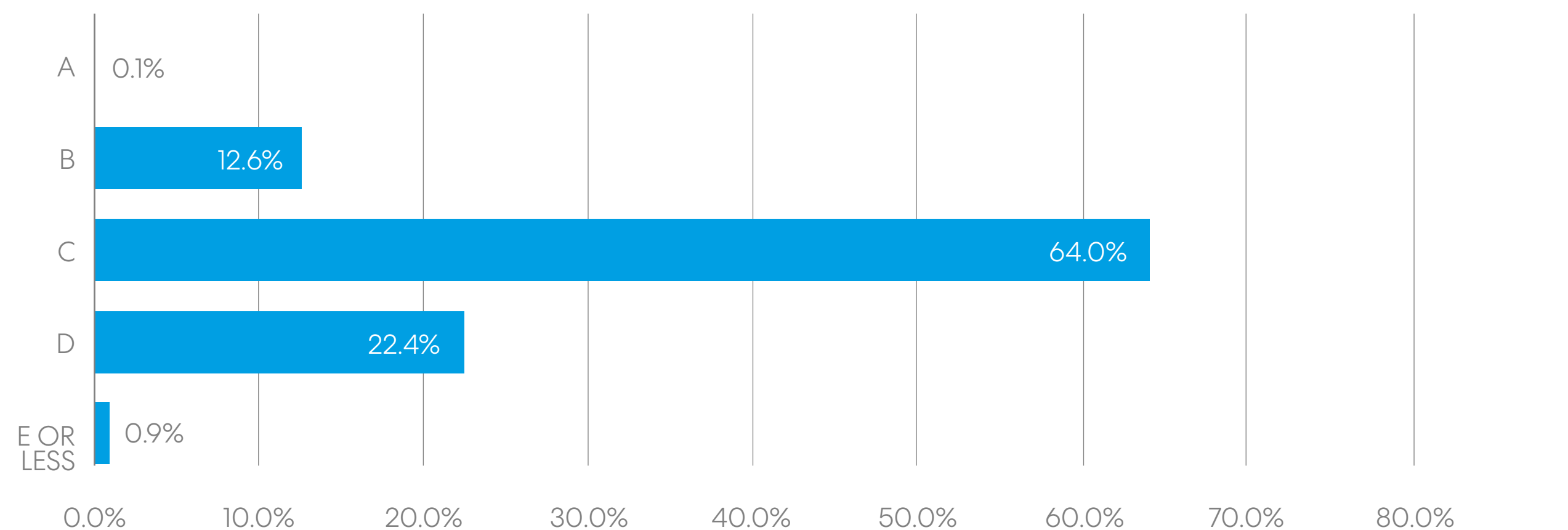
Programme: Start 2023, 8-10-year delivery



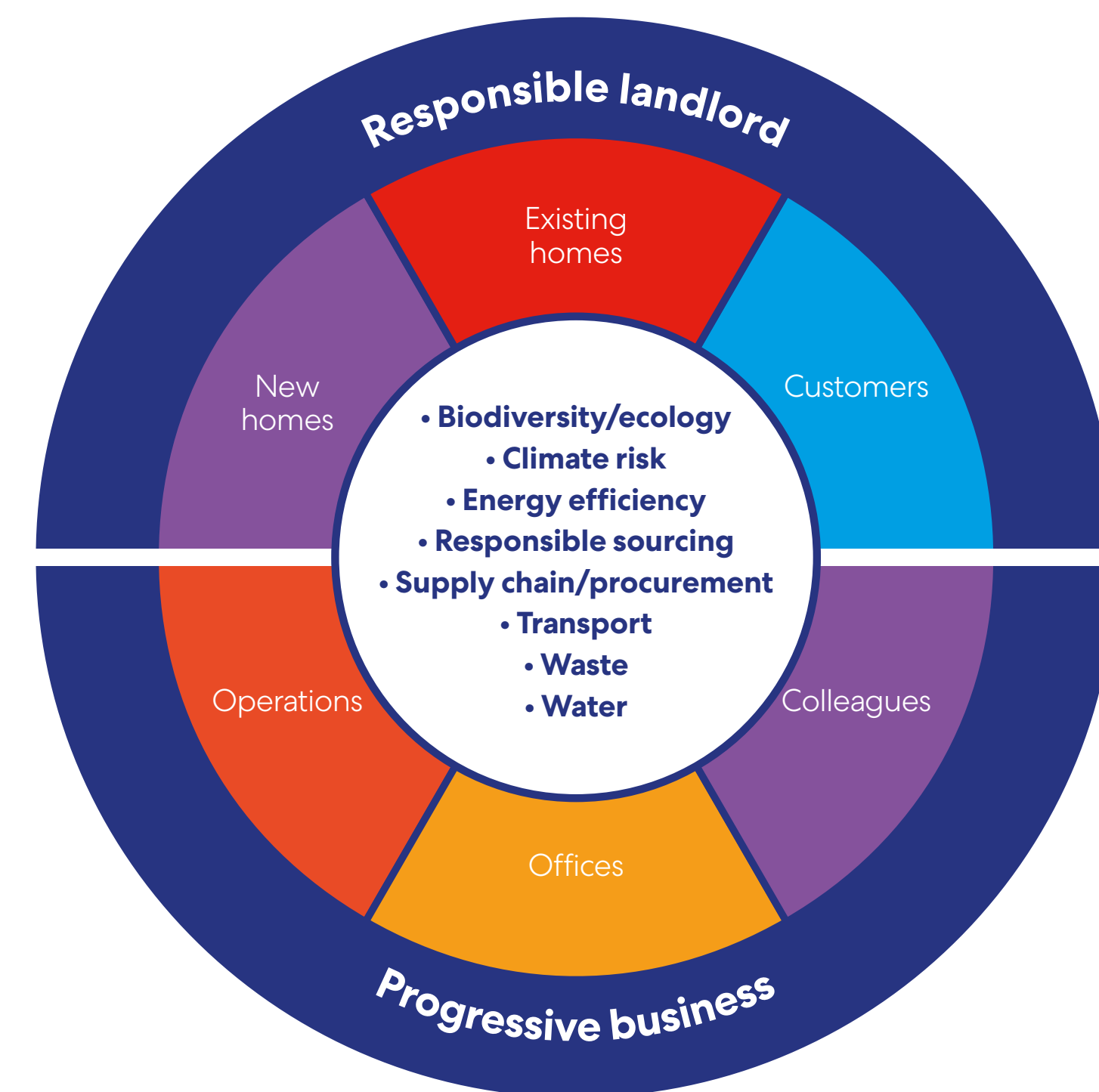
Capital investment, EPC and ESG

- Over the next four years we plan to invest £331m in improving our existing homes
- We set aside £20m at the beginning of 2021/22, specifically targeted to EPC upgrades in the period to 2030
- Our work to date as seen us win ‘Landlord of the Year’ at the North East Energy Efficiency Awards
- During the last 12 months, we have made over 1,300 energy improvement actions, meaning almost 77% of our homes are now rated at EPC C or better (2020/21: 69%).

Current Homes : EPC Ratings



Our Response to Climate Change project forms the backbone of our environmental strategy



- Through annual SHIFT assessments and our ESG reports, we will continue to demonstrate performance improvements
- Improving our data across these areas is a key focus of the strategy.



4.
**Financial
performance**

Performance summary

| Metric | | 19/20 Actual | 20/21 Actual | 21/22 Actual | 22/23 FFR | 23/24 FFR | 24/25 FFR | 25/26 FFR | 26/27 FFR |
|-----------------------------|----|-----------------|-----------------|-----------------|--------------|--------------|--------------|--------------|--------------|
| SH as % of Turnover* | % | 86.9% | 84.5% | 87.0% | 90.0% | 89.4% | 91.5% | 89.0% | 87.8% |
| SH Core EBITDA margin* | % | 37.2% | 38.1% | 37.2% | 36.7% | 38.1% | 40.6% | 40.4% | 40.5% |
| EBITDA Margin | % | 38.6% | 40.4% | 39.8% | 38.7% | 39.5% | 41.4% | 41.7% | 42.0% |
| EBITDA MRI Margin | % | 30.8% | 30.5% | 26.7% | 22.4% | 22.3% | 21.6% | 23.6% | 23.3% |
| Debt to EBITDA MRI | x | 9.3x | 11.5x | 12.0x | 13.5x | 13.0x | 13.3x | 12.0x | 13.1x |
| Gearing (RSH definition) | % | 38.3% | 35.8% | 34.5% | 38.2% | 39.2% | 39.1% | 38.8% | 40.6% |
| EBITDA MRI ICR | % | 227.4% | 213.2% | 195.7% | 183.2% | 209.3% | 200.0% | 225.0% | 216.8% |
| Capitalised Major Repairs | £m | 10.6 | 14.0 | 20.3 | 25.9 | 30.7 | 37.9 | 37.7 | 41.0 |
| Development – completions** | # | 534 | 447 | 463 | 650** | 870 | 671 | 657 | 623 |

* Excludes surplus from first tranche shared ownership and outright sales

**Updated forecast for 2022-23

Group statutory financials

| £m | 19/20 Actual | 20/21 Actual | 21/22 Actual | 22/23 FFR | 23/24 FFR | 24/25 FFR | 25/26 FFR | 26/27 FFR |
|-----------------------------------|-----------------|-----------------|-----------------|--------------|--------------|--------------|--------------|--------------|
| SH Core turnover | 113.2 | 114.6 | 128.5 | 136.5 | 153.7 | 168.4 | 178.1 | 185.6 |
| Sales and other turnover | 22.7 | 27.8 | 26.7 | 22.1 | 25.4 | 22.8 | 29.9 | 33.9 |
| Turnover | 135.9 | 142.4 | 155.2 | 158.6 | 179.1 | 191.2 | 208.0 | 219.5 |
| Cost of sales and other op. costs | (17.7) | (20.6) | (17.8) | (12.7) | (16.4) | (14.8) | (20.1) | (23.4) |
| SH Core operating costs | (83.9) | (84.8) | (97.2) | (104.7) | (112.5) | (118.2) | (127.2) | (132.6) |
| SH Core operating surplus | 23.9 | 29.8 | 31.3 | 31.8 | 41.2 | 50.2 | 50.9 | 53.0 |
| Operating surplus | 34.3 | 37.0 | 40.2 | 41.2 | 50.2 | 58.2 | 60.7 | 63.5 |
| Surplus on disposals | 4.3 | 1.6 | 3.8 | 1.9 | 1.9 | 2.1 | 2.5 | 2.6 |
| Net interest cost | (16.8) | (19.2) | (19.6) | (18.3) | (18.4) | (20.4) | (21.3) | (22.7) |
| Tax and other | 0.3 | 2.7 | 11.3 | - | (0.3) | (0.2) | (0.3) | (0.3) |
| Surplus | 22.1 | 22.1 | 35.7 | 24.8 | 33.5 | 39.6 | 41.6 | 43.1 |

*2021/22 actual includes £8.5m of negative goodwill

Unaudited YTD: September 2022

| £m | Sept 2022 Actual | Sept 2021 Actual |
|--------------------|------------------|------------------|
| Turnover | 81.0 | 76.6 |
| Operating surplus | 22.7 | 24.9 |
| Surplus before tax | 13.7 | 15.4 |

Operating margins slightly lower this year: 26.9% September 2022 (30.7%: September 2021)

Key movements on our income have been:

- £5.5m additional income from newly built properties of the prior year, rent increases at CPI+1% and improvements in empty homes turnaround performance
- £1.5m less in income from outright sales and shared ownership staircasing compared to last year.

Key movements in costs have been:

- £1.5m additional direct costs associated with repairs to the district heating system (DHS) on our Byker estate
- £430k in additional staffing or subcontractor costs.

Forecasted year end position to 31 March 2023:

- Group surpluses are still currently forecasted to be close to budget of £24m by the end of the financial year

A man with a beard and short dark hair, wearing a light blue button-down shirt, is smiling broadly. He is sitting at a table with a light blue laptop in front of him. His right hand is resting on his chin. The background is a blurred office setting with large windows.

5. Funding and treasury

Treasury overview

Treasury:

- 96% of our currently drawn debt is at fixed rates of interest
- Security in place to draw on all £569m available facilities up to full utilisation
- Cash and instant access holdings of £51m at September 2022
- Deposits of £56m at September 2022
- Currently have unencumbered stock worth £293m, and excess or trustee held loan security of £250m, giving total of £543m to fund new borrowings
- Of the £105m in RCF facilities, £55m expire in the next 12-15 months (with a request out for indicative terms), with the remaining £50m in place until May 2025.

Financial plan and funding:

- The 2023/24 budget and business plan is currently in development phase
- Karbon Treasury Committee: re-constituted by Board in September 2022
- Karbon's Golden Rules outline new liquidity should be sourced at least 12 months prior to need plus a new 'sources v. uses' liquidity target has been set recently
- Treasury have been working with the board on strategy for 2023/24
- Karbon draft budget and financial plans 23/24 suggest new 'base' funding profile of (cumulatively):

£80m (by March 2025) (first elements due July 2024)

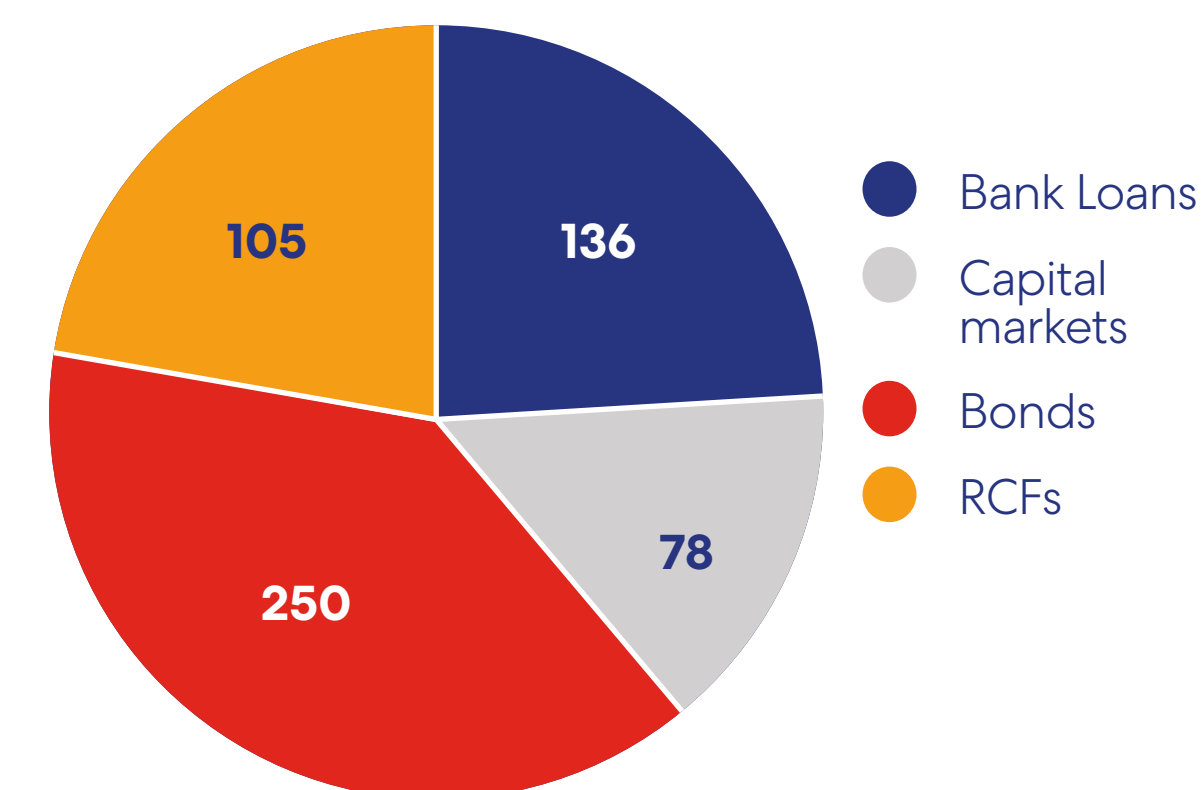
£146m (by March 2026)

£206m (by March 2027)

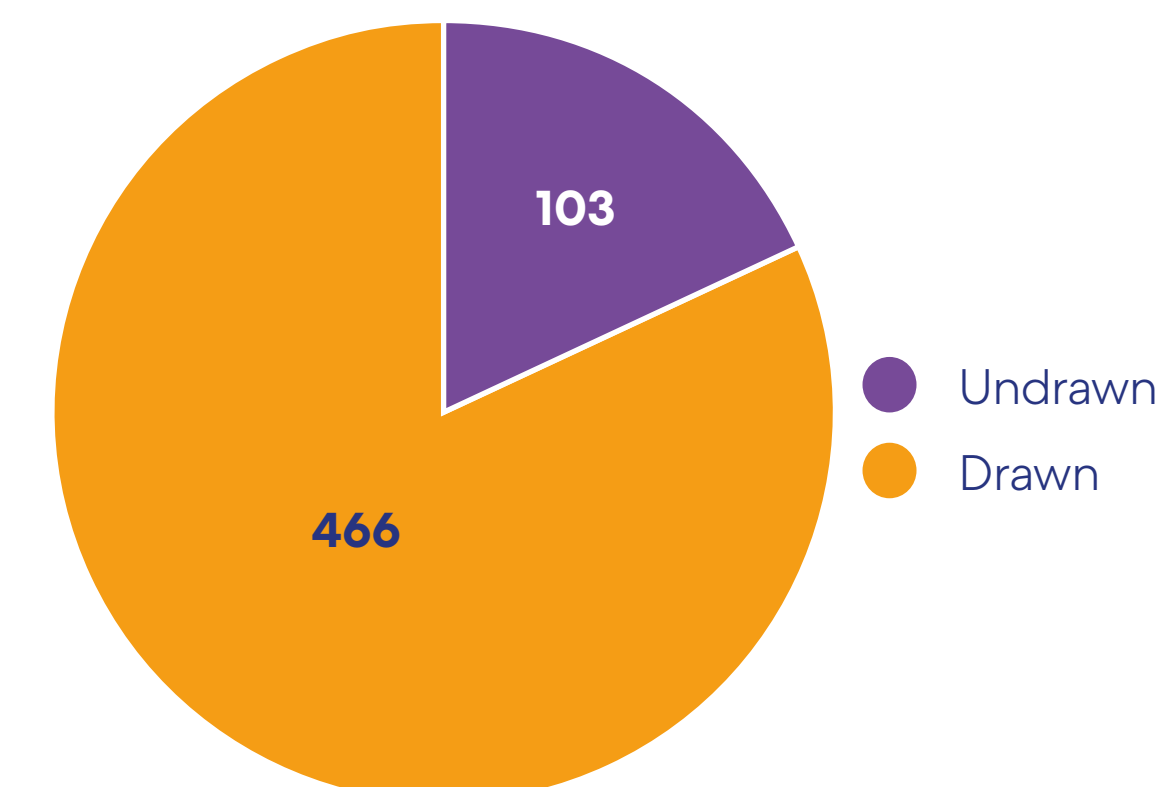
£333m (by March 2028)

BUT, we have two specific stock acquisition projects that could require additional funding of c.£90m in March-June 2023 too.

Funding facilities of £569m



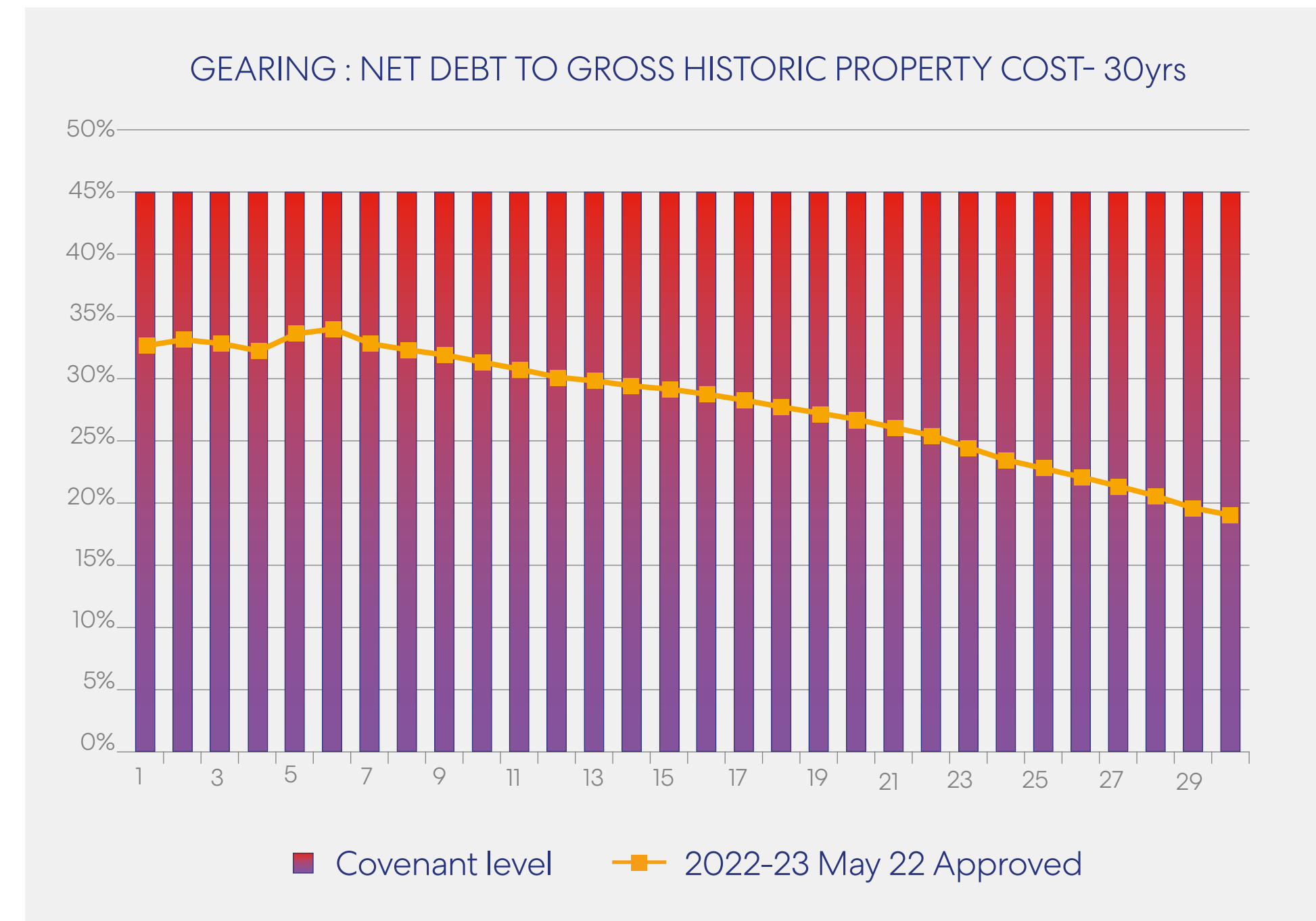
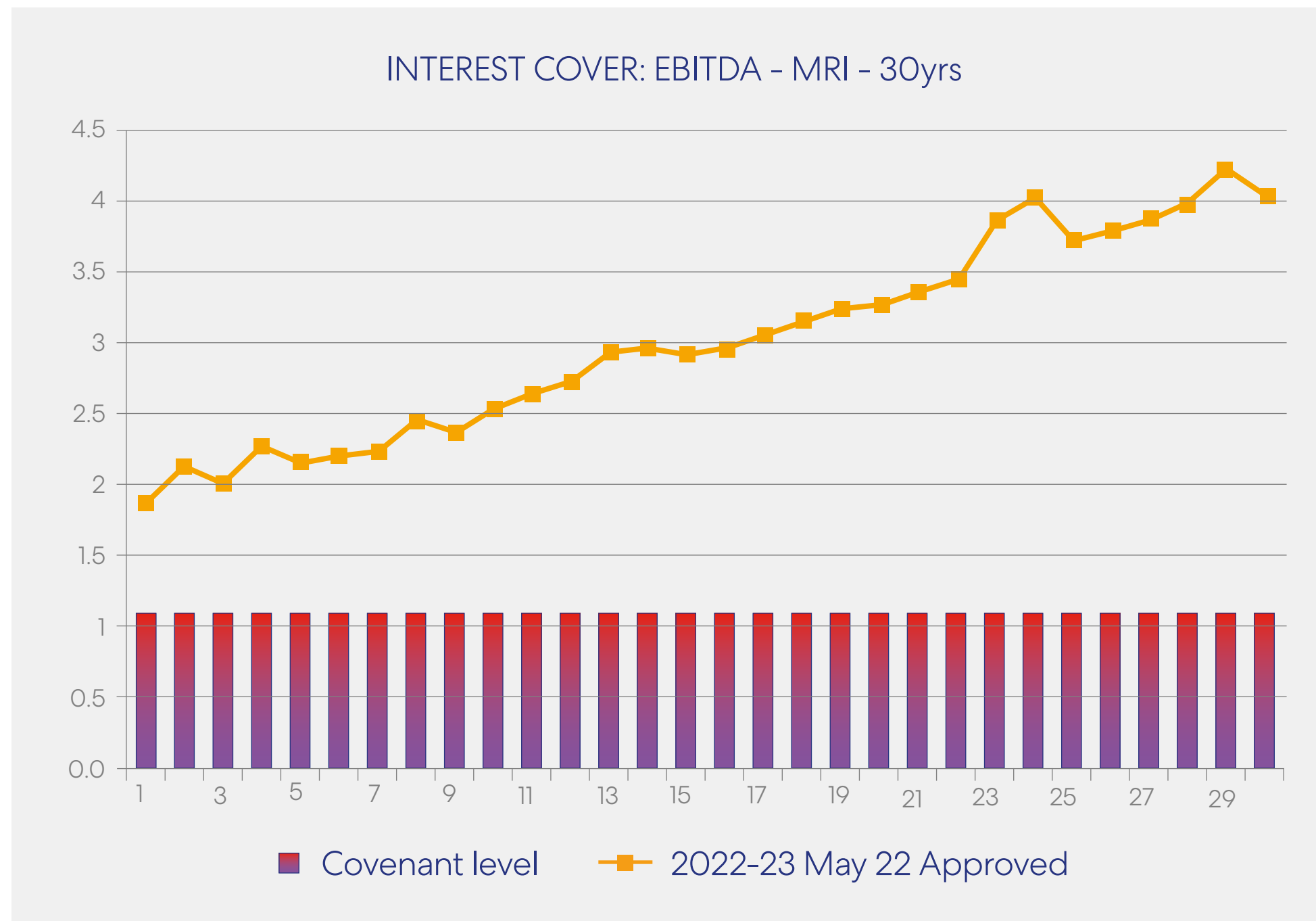
Drawn vs undrawn facilities (£569m)



Source: Metrics from Karbon Homes unaudited Group Management Accounts and Performance Reports, September 2022

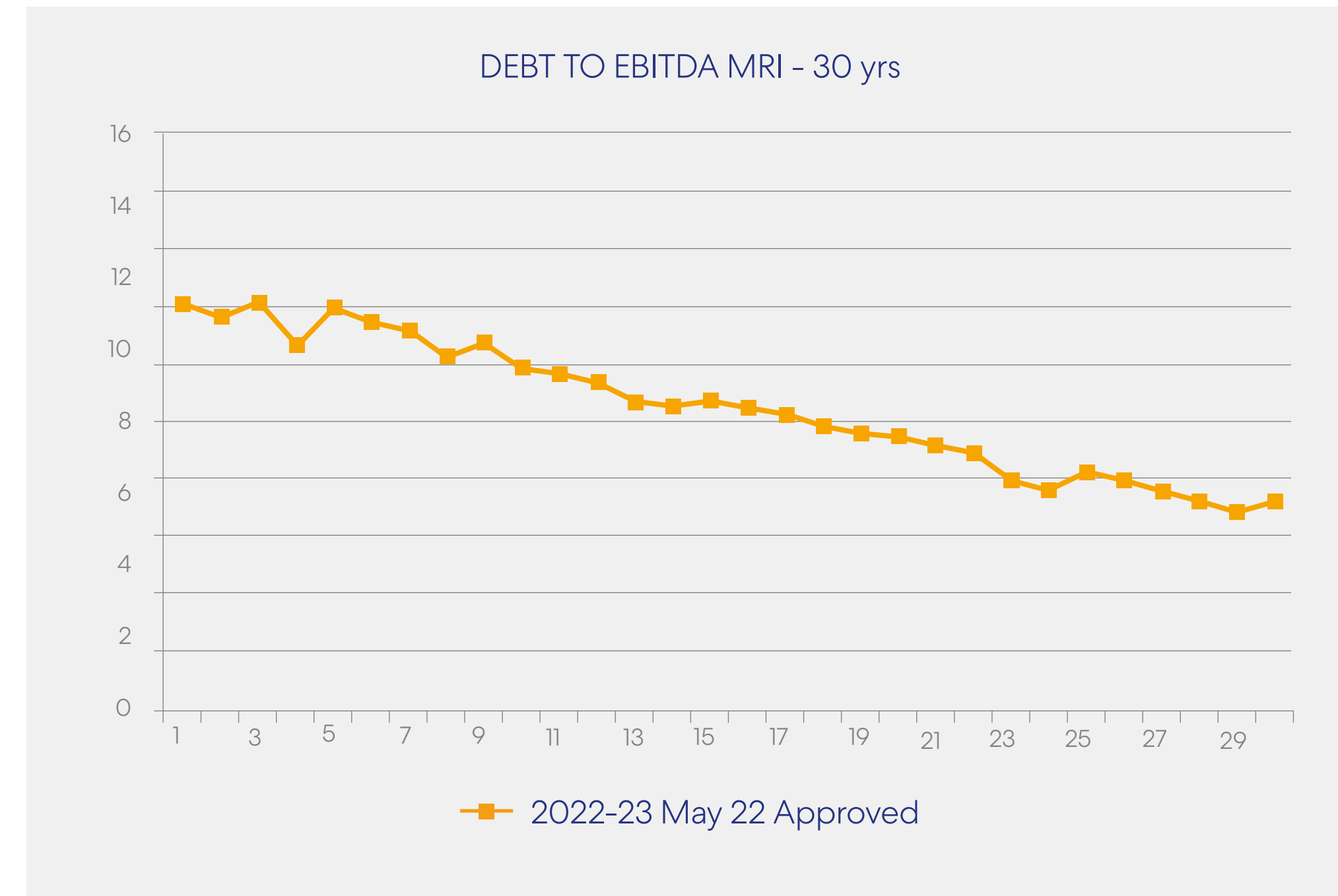
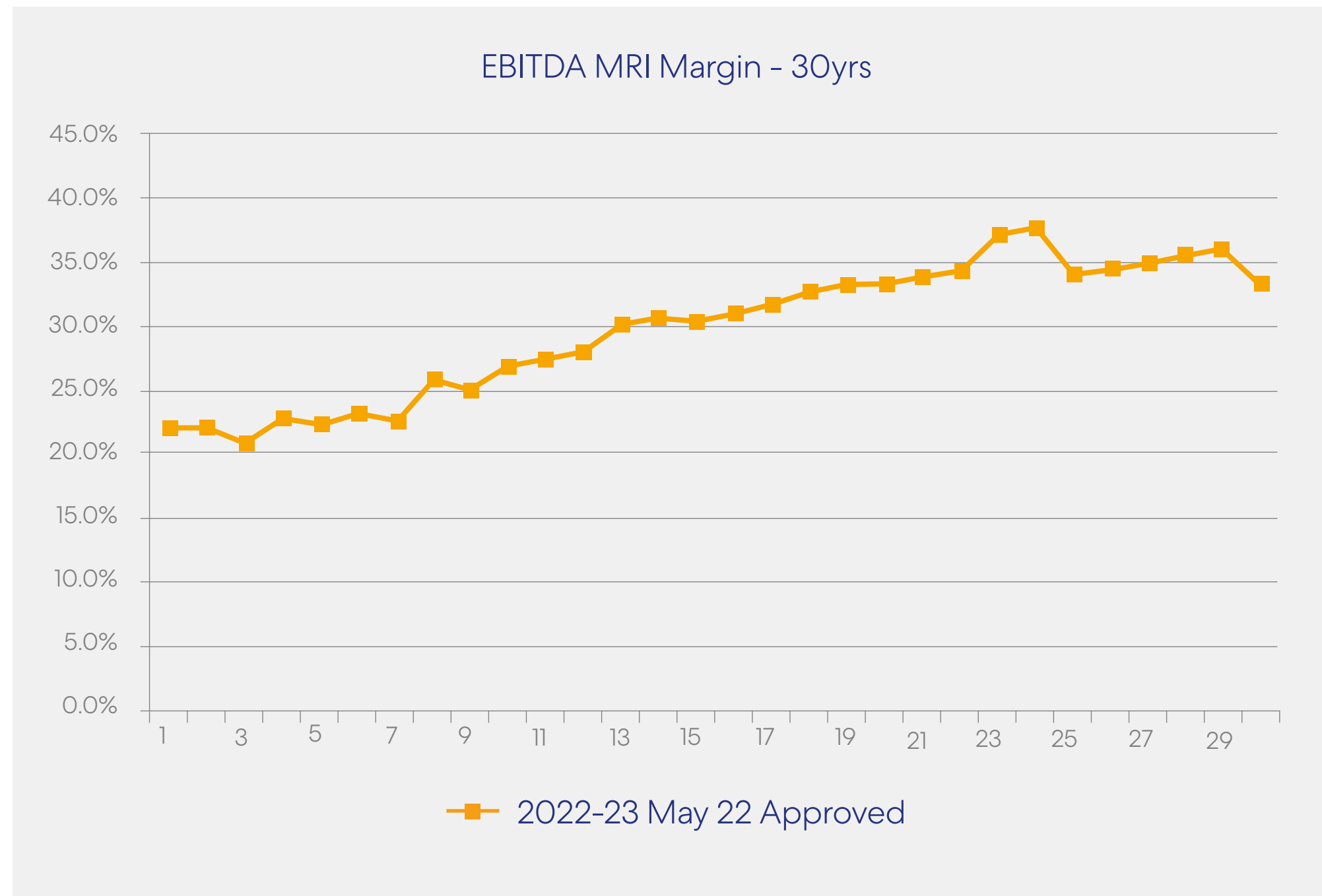
30 year financial plan covenants

Our currently approved 30 year financial plan for 2022/23 shows healthy levels of compliance headroom with our two key banking loan covenants of Interest Cover and Gearing.



30 year financial plan and our credit rating

Since receiving our S&P rating, we have tracked our performance against other stakeholder metrics, such as EBITDA MRI Margin and Debt to EBITDA MRI.



- Our shadow rating model is used extensively by our Board in strategic modelling
- Our aim is to maintain our A rating.

Credit highlights

1. Credit profile

Strong investment grade (A rated, S&P), c. 30,000 homes, regionally focussed housing association, with a deep rooted history in local communities

2. Merger track record

Proven track record of successful merger and stock acquisition integration, with sustained financial performance

3. Development focus on social housing

Low risk business model with core social housing strategy. Turnover from social housing lettings represents 87% of total turnover

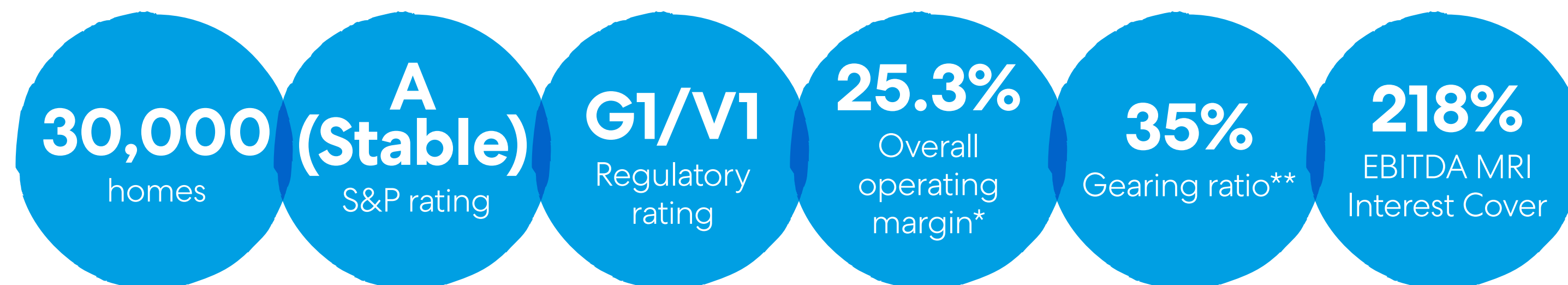
4. Robust financial metrics

Strong operating margins, high income generation and low levels of gearing

5. Excellent governance

Skilled and experienced Board, reflected in consistent G1/V1 rating (stability check 11th Jan 2023)

6. Strong ESG foundations - Committed to achieving EPC Band C across existing homes by 2030. Two years of reporting ESG metrics using the Sustainability Reporting Standard for Social Housing



Any questions?